

# **DANNHAUSER LOCAL MUNICIPALITY**

**KZN 254**



## **DRAFT BUDGET 2016/2017**

## **Executive Summary**

Practices (GRAP), MFMA No.56 of 2003. The budget has also been compiled on a three year basis, which is a requirement of National Treasury. The budget process for the compilation of the three year budget commenced in August 2011. The municipality were faced with various challenges during the compilation of the budget and reviewing the IDP such as the formulation of measurable objectives for the different functions, the financial implications of the organisational structure, capital costs, rising input costs to deliver services and increasing maintenance costs.

According to National Treasury MFMA Circular No. 28 of 2005: The draft budget documentation must be tabled to council not later than 31 March (90 days before the start of the budget year) and final budget to be adopted 31 May.

## **Council Resolutions**

The Council of Dannhauser Municipality at a meeting that will take place on 23 March 2015 will table the draft annual budget. The following draft resolutions are contained in the agenda of the Special Council meeting to be held on 23 March 2016

## **RECOMMENDATION**

That the following draft resolutions in terms of sections 16(2) and 17(3) of the Municipal Finance Management Act, (Act 56 of 2003) be noted for final approval in May 2016

### **DRAFT RESOLUTIONS (To be approved in May 2016)**

- a) that the following draft policies be approved
  - I. Customer Care, Credit Control and Debt Collection Policy
  - II. Property Rates Policy
  - III. Tariff Policy
  - IV. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy
  - V. Indigent Policy
  - VI. Virement Policy
  - VII. Cash Management and Investment Policy
  - VIII. Travel & Subsistence Policy
  - IX. Supply Chain Management Policy
  - X. Asset Management Policy
  - XI. Long Term Financial Plan
  - XII. Liquidity Policy

- b) That the draft annual budget for the financial year 2016/17 and indicative

Outer years 2016/17 and 2017/18 be approved as set-out

That the capital funding, both internal and external funding, be secured prior to the commencement of any new capital project

That the draft annual budget documentation for 2016/17 – 2018/19 as outlined in the budget regulations be submitted to National and Provincial Treasury

## **Budget 2015/16 Mid-year Review and adjustments budget**

**The following table shows the original and adjustments budget for 2015/16**

'000	Original Budget	MYR Adjusted Budget	Difference
Capital	R 46 728 575.00	R 49 089 071.00	R 2 360 496.00

Operating Income	R 134 739 339.00	R 134 074 339.00	R 665 000.00
Operating Expenditure	R 88 069 807.00	R 94 559 713.00	R 6 489 906.00

The 2015/16 adjustments budget was taken into account in the preparation of the 2016/17 MTREF. In particular, the capital budget must be set at a level that is realistic in terms of the capacity to deliver and the ability to fund

The MANCO was confronted with numerous challenges during the budget process trying to balance the budget. The following had an impact

- The continued negative effect of the economic downturn;
- The addressing of service delivery shortcomings as identified in the adjustments budget in February 2016 and its effect on the available funding
- The continued funding constraints with regards to the low available funding for the Capital Budget
- High demand of electrification reticulation
- Ever increasing operating expenses

The 2015/16 adjustments budget in February 2016 again proved that the ability of Council to reduce costs is limited due to the fact that the fixed cost component of the operating budget exceeds the variable costs by far. The adjustments budget nonetheless defined the basis for the draft 2016/17 budget

The municipality needs to focus on its core functions. During the Draft budget of 2016 the Heads of Departments, scrutinised the budget to affect all possible savings.

- The need to maximise income through efficiencies and the business were investigated before a decision is made to increase our rates, service charges and other tariffs
- The Draft Budget is Cash-Backed by Surplus Cash for prior years with an amount of R 10 million
- Internally Funding for Capital projects increased to R 29 million compared to other years.
- Depreciation of Assets improved to R 7.5 million which is still not enough compared to Audited Financial Statements for 2014/15 and property plant and equipment carrying value. The municipality is aiming to increase this allocation annually until it's adequate.

The total estimated operational revenue for 2016/2017 from own sources is R 42 512 239.00 and estimated R 104 788 000.00 from National, Provincial as grants and subsidies. The estimated Revenue is 30% above the current adjusted budget. On the other hand the proposed estimated Expenditure for 2016/2017 annual budget 7% higher than the current adjusted expenditure.

Table: 1 Operational Expenditure 2016/2017 to 2017/2018

	2016/2017 Proposed budget	2017/2018 Forecasted Budget	2018/2019 Forecasted Budget
	R	R	R
Revenue	(42 512 239)	(33 158 824 .00 )	(35 117 291.00)
Transfers Capital	( 101 143 000.00)	(105 450 000.00)	(109 560 000.00)
Expenditure	143 648 784.00	144 196 388.00	143 526 012.00
Surplus / Deficit	(6455)	5 587 564	( 1961 279)

The 2016/2017 MTREF has been prepared within the context of reducing expenditure due to the municipality's cash constraints and taking into consideration the implications of this increasing global costs thus to ensure that the financial sustainability of the council is sustained

- The municipality's income is made of 70% from Grants and 30% from own revenue. This is a really concern because the large amount of income comes from the Transfer and grants. It means the infrastructure development would not be fast track in pace that the council might want too. Given current situation the municipality must revise its plan of expediting capital projects because of income constrains. The current spectrum detect that the capital projects be funded by conditional grants.
- Our municipal revenue and cash flows are expected to remain under severe pressure in 2016/17 and so we must adopt a conservative approach when projecting the expected revenues

#### **The further break-down of the municipality's Income**

R thousands	Adjusted Budget 2015-16	Budget Year 2016-16
Property Rates	13 087 992.00	17 617 487.00
Services Charges-Refuse Removal	980 426.00	1 048 075.00
External Investments	1 500 000.00	3 000 000.00
Vat Recognition	5 822 334.00	7 136 740.00
Surplus Cash	6 209 498.00	10 140 000.00
Other Income	2 427 089.00	3 569 937.00

- Funding in operating expenditure is from Equitable Share, FMG, EPWP and Library Grants and own income

The IDP review was prepared in aligned with budget and performance management plan objectives of the municipality, resulting in the development and approval of the Service Delivery and Budget Implementation Plan (SDBIP).

<b>Expenditure By Type</b>											
Employee related costs	2	15 260	16 247	22 163	29 428	29 166	-	-	34 075	36 244	38 569
Remuneration of councillors		4 357	6 478	5 845	7 413	7 413			7 925	8 376	8 838
Debt impairment	3	2 631		481							
Depreciation & asset impairment	2	22 718	25 305	26 010	5 000	6 500	-	-	7 500	7 935	8 371
Finance charges											
Bulk purchases	2	-	-	-	-	-	-	-	-	-	-
Other materials	8	3 681	4 916	6 037	6 685	7 468			5 780	6 113	6 449
Contracted services		-	-	-	-	-	-	-	-	-	-
Transfers and grants		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	28 789	63 159	47 918	37 427	35 965	-	-	36 270	38 997	41 139
Loss on disposal of PPE			-								
<b>Total Expenditure</b>		<b>77 436</b>	<b>116 105</b>	<b>108 453</b>	<b>85 953</b>	<b>86 511</b>	<b>-</b>	<b>-</b>	<b>91 549</b>	<b>97 665</b>	<b>103 366</b>

### **Salaries and Wages**

Salaries increased from R 29 166 000.00 for the 2015/2016 financial year's revised budget to an amount of R 34 075 000.00 for the 2016/2017 financial year (excluding councillors), for councillors the expenditure budgeted increased from R 7 413 000.00 to R 7 925 000.00. The total salary package of the Council amounts to 24 % of the total Expenditure.

### **GENERAL EXPENSES**

General expense has been provided for at R 36 270 000.00 in 2016/2017 financial year operational estimates. The big figures in general expenses are for the followings.

General expenditure is made up by the following

SECURITY & ALARMS			2 931 838	
IDP			1 500 000	
ELECTRICITY			1 537 227	
COUNCIL WARD COMMITTEE			1 250 059	
AUDIT FEES - EXTERNAL			1 961 730	
AUDIT FEES - INTERNAL			1 210 536	
MUNICIPAL ZIBAMBELE			1 083 240	
MEETINGS: SUBS/TRAVEL			2 397 203	
TRAINING			698 672	

### **Repairs and Maintenance**

The municipality has not reach the required 8 % on the Repairs and Maintenance, but the municipality is working toward this percentage in future.

Other materials	8	3 681	4 916	6 037	6 685	7 468		5 780	6 113	6 449
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### **Depreciation**

The budget for depreciation is R 7.5 million which is very low compared to Audited depreciation of around R 20 million. It is non- cash item . The municipality will review the depreciation figure in future to align it to year end figure.

### **Proposed tariffs for 2016/17**

DRAFT TARIFFS FOR 2016/2017 FY			
CODE	CATEGORY DESCRIPTION	CURRENT TARIFF 2015/2016 5.9%	PROPOSED TARIFFS 2016/2017 5.6% INCREASE
AGA	Agricultural Properties used for agricultural purpose	0.29	0.31
AGB	Agricultural Properties used for other business and commercial purposes	3.92	4.14
ASA	Small holdings used for agricultural/residential purposes	0.29	0.31
ASB	Small holdings used for business/commercial/industrial purposes	3.92	4.14
BUR	Business and commercial properties (with residential usage)	3.92	4.14
BUS	Business and commercial properties	3.92	4.14
IND	Industrial properties	3.93	4.15
IFV	Informal settlements	NIL	NIL
INR	Industrial properties (with residential usage)	3.92	4.14
LR	Land reform properties	NIL	NIL
MIN	Mining properties	3.92	4.14
MUN	Municipal properties	NIL	NIL
FBO	Public benefit organisations	NIL	NIL
PSI	Public service infrastructure	0.29	0.31
RES	Residential properties	1.12	1.18
SC	Schools (private and state)	4.43	4.68
STP	State owned properties	4.43	4.68
VL	Vacant land (other than residential)	8.98	9.48
VR	Vacant land zoned residential	8.43	8.90
WOC	Public worship	NIL	NIL
WOR	Worship residential	NIL	NIL

All rebates, reductions and exemptions are contained in Council's approved Municipal Property rates Policy and may in certain circumstances be applied to the rate as assessed above.

The rebates are conditional and will be forfeited if the rates are not paid within 60 days of the date of issue of account.

## GENERAL

1. Rates will be payable in twelve equal monthly instalments within 30 days of date of issue of the account
2. Any rates that are not paid on time will be subjected to interest at 1.89% per month or part Thereof
3. A collection fee of 10% will be raised on amounts outstanding for longer than 120 days
4. Any rates remaining unpaid for longer than 6 months will be subjected to legal action to recover Outstanding amount.
5. All outstanding amounts longer than 120 days will be handed over to the municipal attorneys and all the charges will be of a customer.
6. The date on which the determination of rates comes into operation is 01 July 2016

## OTHER SERVICE TARIFFS

Hall Hire excluding Dorothy Nyembe hall			276.43	291.91
Hall Hire Deposit for meeting			276.43	291.91
Hall Hire for wedding exc Dorothy Nyembe Hall			2500.00	2640.00
Hall hire deposit for wedding Exc Dorothy Nyembe Hall			1000.00	1056.00
Boardroom Rental per hour			27.60	29.15
Library Rental per hour			27.60	29.15
Billboards			4490.16	4741.61
Election/ advertising Posters Deposit			561.27	592.70
Election/other advertising Posters Fee			280.64	296.36
Vendors pm	( Small room)		78.58	82.98
Vendors pm	( Big room)		101.03	106.69
Stale Cheque or Unpaid Cheque			105.9	111.83
Hiring of Durnacol Sports Centre Dep.			0	2500.00
Hiring of Durnacol Sports Centre ( Churches,funeral and sports)			0	5000.00
Hiring of Durnacol Sports Centre Dep.				5000.00
Hiring of Durnacol Sports Centre (Music Events & beauty contests)				10000.00
Hiring Of Dorothy Nyembe Hall Dep.			0	1500.00
Hiring Of Dorothy Nyembe Hall			0	3500.00

NB:

1. Cancellations of halls will only be accepted 3 days before the date of booking, failure to do so will result to a penalty of 50 % being charged on deposit and the hall hire payment will be forfeited
2. Other Service tariffs charges will incur 5.6 % increase in the 2016/17 financial year
3. Deposit fee for all adverts will be forfeited if the posters are not removed on the date agreed upon
4. Vacant land situated in Dannhauser, Hattingspruit and Durnacol that are undeveloped for the period of 24 Months will be penalised at the rate of vacant land rate if its market value is under R 50 0000 and 5 % of the rateable value if its Market value is above R50 000.00

<b>Valuations</b>				
Valuation Roll per Page			91.98	97.13
Valuation Certificate			45.99	48.57
Deed search			450.00	475.20
Appeal fee refunded under circumstances			74.32	78.48
Revenue Clearance Certificate			183.96	194.26
Search fees			36.79	38.85
<b>Cemetery Fees</b>				
Normal fee per grave			367.94	388.54
Indigent fee per grave			138.19	145.93
Pensioner's fee per Grave			183.96	194.26
<b>Refuse Removal</b>				
Domestic Bin removal INC VAT			47.68	50.35
Business bins 0-4 INC VAT			115.82	122.31
Business bins 5 or more INC VAT			314.09	331.68
Garden refuse (office hours)			189.66	200.28
Garden refuse (after hours)			572.28	604.33
<b>Library Fees</b>				
Group activities			91.92	97.07
Photocopies Black & white			1.26	1.33
photocopies Colour			3.18	3.36
Book fines per week			1.47	1.55
<b>Taxi Rank Fees</b>				
Per Taxi/per year			355.62	375.53
Per Metre Taxi/per year			296.35	312.95
Per Bus/per year			592.7	625.89
<b>Building Plan Fees &amp; Inspections</b>				
<b>AREA</b>				
1-49m <sup>2</sup> or part thereof			110.57	116.76
50 - 99.9m <sup>2</sup>			165.00	174.24
100 - 149.9m <sup>2</sup>			241.89	255.44
150 - 199.9m <sup>2</sup>			317.90	335.70
200 - 299.9m <sup>2</sup>			393.92	415.98
300 - 399.9m <sup>2</sup>			532.14	561.94
400 - 499.9m <sup>2</sup>			684.18	722.49
500 - 599.9m <sup>2</sup>			836.22	883.05
600 - 799m <sup>2</sup>			981.34	1036.30
800 -999.9m <sup>2</sup>			1278.52	1350.12
1000 - 1499.9m <sup>2</sup>			1575.69	1663.93
1500 - 1999.9m <sup>2</sup>			2252.95	2379.12
2000 - 2999.9m <sup>2</sup>			2868.03	3028.64
3000 - 3999.9m <sup>2</sup>			3856.27	4072.22
4000 - 5999.9m <sup>2</sup>			4844.53	5115.82
6000 - 7999.9m <sup>2</sup>			6012.48	6349.18
8000 - 9999.9m <sup>2</sup>			7152.77	7553.33
10000m <sup>2</sup> - and above			8320.72	8786.68

## Indigent Applications

Dannhauser Municipality invited all households that are resides in the jurisdiction of dannhauser municipality who qualifies for an Indigent support as per Dannhauser Municipality policy to apply for



indigent exemption. The municipality will consider applications from the following

1. Households with gross income > R 3020.00 per month
2. Pensioners 100 % exemption on both rates and Refuse only if you submitted the application form and earning the money less than R 3020 per month.
3. Child headed families also receive 100 % exemption

The application forms are available at the municipality and the closing date is 30 April 2016

### **Overview of budget**

This section of the budget report provide comprehensive summary of all the assumption used in the budget preparation. Budgets are prepared in an environment of uncertainty and assumptions need to be made about both internal and external factors that could impact on the budget during the course of the financial year. It should be noted the longer the period the more uncertainly and vice versa, the two outer period as presented on the budget are more likely to be missed than the 2016/17 estimates

National treasury estimate the inflation to as follows

Fiscal year	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Forecast		
CPI	5.6%	5.5%	6.0%	5.8%	5.8%

Prices increases on various items on the budget were assumed as follows

- Property rates increase by 5.6%
- Refuse removal increase by 5.6%
- Other services increase by 5.6%

Depreciation expenses. Depreciation expenses increase by 13% based on current expense.

Collection rate: Collection rate is assumed at 75% in 2016/17 financial year

### **Capital expenses**

Capital expenses is funded by MIG and internal funding

Grants on the DoRa

	2015/16	2016/17
MIG	R 21 074 000.00	R 21 767 000
Equitable Share	R 74 181 000.00	R 75 694 000.00
FMG	R 1 800 000.00	R 1 825 000.00

EPWP	R 1 000 000 .00	R 1 000 000.00
PROVINCIALISATION OF LIBRARY - ARTS & CULTURE	R 553 000.00	R 559 000.00
COMMUNITY LIBRARY SERVICES - ARTS & CULTURE	R 170 000.00	R 179 000.00
MSIG	R 930 000.00	

Summary of MIG projects

Community Halls Ward 2	R 3 000 000.00
Rural Roads - MIG	R 3 000 000.00
Rural Road-Mig	R 4 000 000 .00
Construction of Dannhauser Taxi Rank	R 11 767 000.00

The growth of capital expenditure caused by electrification projects which is funded by internal funding. Gazatted MIG conditional grant of R 21 767 000.00 and other capital expenditures are funded by internal funding.

**Detailed capital expenditure**

CAPITAL BUDGET 2015/2016 - 2016/2017					
DEPARTMENT & VOTE NO.	DESCRIPTION		PROJECTED BUDGET 2016/2017	PROJECTED BUDGET 2017/2018	PROJECTED BUDGET 2018/2019
<b>Executive &amp; Council</b>					
	Motor Vehicle Mayor's Car		-	-	-
	Municipal Electricity Back Up Syste		-	-	-
	Equipment & Furniture		-	-	-
			-	-	-
<b>Corporate Services</b>					
	Motor Vehicle		2 000 000		
	Fire arms & Bullet proof vests		-		
	Laptops for Councillors				
	Computer Equipment		500 000		
	Electronic Filing System		-		
	Equipment and Furniture		50 000		
	CCTV Cameras		50 000		
			<b>2 600 000</b>	<b>-</b>	<b>-</b>
<b>Budget &amp; Treasury</b>					
	Equipment & Furniture		150 000	158 100	166 796
	Laptops & Computers			-	-
	Computer		82 390	86 839	91 615
	Motor Vehicle		300 000	316 200	333 275
	Double Cap		400 000	421 600	444 366
			<b>932 390</b>	<b>561 139</b>	<b>591 686</b>
<b>Technical Services</b>					
	Meter Conversion		600 000	632 400	666 550
	Office Equipment & Furniture		100 000	105 400	111 092
	Culverts		300 000	316 200	333 591
	New Offices		6 000 000	6 324 000	6 671 820
	Rural Roads - MIG		3 000 000	3 162 000	3 335 910
	Community Halls Ward 2		3 000 000		
	Electrification Project		8 000 000		
	Rural Road-Mig		4 000 000		
	COSTRUCTION OF DANNHAUSER TAXI RANK		11 767 000	12 402 418	13 072 149
	MAST LIGHT		-	-	-
	CHILD CARE FACILITY MOBILE CRETCH		600 000		
	JOJO TANKS		300 000	-	-
			<b>37 667 000</b>	<b>22 942 418</b>	<b>24 191 111</b>
<b>Community &amp; Social Services</b>					
	Skip Bins		630 000	664 020	699 877
	Lawn mower		120 000	126 480	133 310
	Tractor		500 000	527 000	555 458
	30 x Brush Cutters		150 000	158 100	166 637
			<b>1 400 000</b>	<b>1 475 600</b>	<b>1 555 282</b>
<b>Protection Services</b>					
	Motor Vehicle		400 000		
	Road Painter		100 000	105 400	111 092
			<b>500 000</b>	<b>105 400</b>	<b>111 092</b>
<b>Planning &amp; Development</b>					
	Community Skills Development		-	-	-
	Equipment & Furniture		100 000	105 400	111 197
			-	-	-
			<b>100 000</b>	<b>105 400</b>	<b>111 197</b>
<b>Municipal Manager</b>					
	LED Farm Project		1 000 000	1 000 000	1 000 000
	Acquisition of Land		7 300 000		
			<b>8 300 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
<b>TOTAL CAPITAL BUDGET</b>			<b>51 499 390</b>	<b>26 189 957</b>	<b>27 560 367</b>

## **BUDGET PROCESS AND KEY STAKEHOLDER RELATIONS**

### **DATES OF IDP REPRESENTATIVE FORUM AND PUBLIC CONSULTATION MEETINGS**

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>08 August 2015-Ward Committees &amp; CDW's</li> </ul> | <ul style="list-style-type: none"> <li>The provision of feedback on the status quo and strategic framework components of the IDP; (Process Plan)</li> </ul> |
|--|---|

<ul style="list-style-type: none"> <li>• 12 August 2015 – IDPRF Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Presentation of the Sector Plans</li> <li>• Status Quo and review of the Spatial Development Framework and SPLUMA introduction.</li> </ul>
<ul style="list-style-type: none"> <li>• Ward Public Constituency Meetings (Ward1-11), 14-21 October 2015</li> </ul>	<ul style="list-style-type: none"> <li>• Ward Councillors reporting to their Constituencies for the 1<sup>st</sup> Quarter of 2015/2016 Financial Year, to their respective Wards.</li> </ul>
<ul style="list-style-type: none"> <li>• Ward Committees and CDW's -11 November 2015</li> <li>• 12 -13 November 2015 - Budget/IDP Roadshows Meeting for all 11 Wards</li> </ul>	<ul style="list-style-type: none"> <li>• The provision of feedback on the status quo and strategic framework components of the IDP;</li> <li>• Submission of Capital Projects and Report on; and</li> <li>• First Quarter Report</li> </ul>
<ul style="list-style-type: none"> <li>• 24 March 2016- IDPRF Meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Presentation of the draft IDP and Budget ahead of the public participation process.</li> <li>• Presentation of the PMS quarterly report. <ul style="list-style-type: none"> <li>• Sector Plans and SPLUMA compliance report as per SDF</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• 7April -11 April 2016- IDP/Budget Road shows</li> </ul>	<ul style="list-style-type: none"> <li>• to all stakeholders as prescribed by the legislation (Communities, Ward Committees, Business Representatives, and other structures</li> </ul>
<ul style="list-style-type: none"> <li>• 24 May 2016 – IDPRF MEETING</li> </ul>	<ul style="list-style-type: none"> <li>• Feedback on comments received during the 21 day advert period on the Budget and IDP as well as the public participation process and suggested ways of addressing these issues.</li> <li>• Recommendation by the IDP RF for the adoption of the IDP by Council.</li> </ul>